



Demonstrated Need and Strategic Fit

This guideline expands on what is expected by the criteria statements in the Hydropower Sustainability Tools (HST) for the Demonstrated Need and Strategic Fit topic, relating to assessment, stakeholder engagement and outcomes. The good practice criteria are expressed for the preparation stage.

In the Hydropower Sustainability Assessment Protocol (HSAP), this topic is addressed in P-3. In the Hydropower Sustainability ESG Gap Analysis Tool (HESG), this topic is addressed in Section 1.

This guideline addresses the contribution of the project in meeting demonstrated needs for water and energy services as identified through broadly agreed local, national and regional development objectives, and in national and regional policies and plans. The intent is that the project fits with development objectives and relevant policies and plans can be demonstrated, and that the project is a priority option to meet identified needs for water and energy services. The terms 'demonstrated need' and 'strategic fit' are often associated with the early assessment stage of energy and water planning and are closely linked with options assessment. For example, a Strategic

Environmental Assessment (SEA) of a national Energy Policy, which is ideally carried out well before project preparation stages, would cover aspects such as demonstrated need and strategic fit.

One of the most basic reasons for civil society opposition to a hydropower development may be that, with regard to societal objectives, the need for the project has not been well-established. It may be difficult for project affected communities to support a project that appears to be being developed primarily as a profit-making venture for a private developer. The better a project proponent can communicate the demonstrated need for the project in terms of local, national, and regional water and energy services, the better the chances that the project can be supported by the communities that it affects.

In the case of a transboundary project there may also be regional (i.e. multi-national) initiatives that have relevant policies and plans. The project may be within the sphere of a River Basin Organisation (RBO) that has its own institutional structures, policies, agreements, plans, and guidelines. There may be bilateral or multi-lateral agreements that govern the shared water resource. The developer will need to know what state or province (the tier below national) the project sits within, whether any aspects of the project have implications that cross state or provincial boundaries, and the policy and planning requirements that will be applicable. There may also be a local government

level for which policies, strategies and plans should be identified.

Assessment

Assessment criterion - Preparation Stage: An assessment has been undertaken of needs for water and energy services, of options to meet water and energy needs; and of national and regional policies and plans relevant to those needs, with no significant gaps.

The assessment of demonstrated need should commence with a thorough analysis of national and local development goals, and development objectives expressed in policies and plans. The initial emphasis should be on stated needs for water and energy services, but it would be important to include further analysis of a broader set of stated demonstrated needs in the assessment.

Water services examples include: drinking water supply; domestic needs of riparian dwellers; energy generation; fisheries; floodplain agriculture; food supply, water storage capacity, sanitation; water for business and industry; irrigation water supply; flood management; navigation; recreation; tourist opportunities; focal area for transboundary cooperation; and ecosystem services (e.g. floodplain maintenance, connectivity for migratory species, maintenance of off-river wetlands, nutrient and sediment balance, delta sediment replenishment, estuarine flushing, spawning ground access and maintenance).

Energy services examples include: provision of electricity to meet local, national and/or regional demand or opportunities; provision of grid stability; provision of peak load; and provision of ancillary benefits such as spinning reserve, system regulation, and improved thermal efficiency. A hydropower development to meet the energy requirements of an energy-intensive off-taker (e.g. an aluminium smelter) would be considered a demonstrated need if it is included in broadly agreed development objectives, policies and plans.

Local, national and regional objectives may be expressed in different forms, such as: an energy master plan; a water development plan; a country development report; strategic environmental assessments; options assessments;

energy demand projections; local, national or regional development assessments including livelihoods and living standards; conservation strategies; climate adaptation plans; a report of relevant policies and plans; a report on project demonstrated need and strategic fit; and use of multi-criteria analysis in assessing options.

There may be competing needs stated in various development related plans. For example, a region may clearly need energy, water and food security. Food or livelihood security may best be provided for by protecting instream fish stocks or agricultural land. Energy security may be well provided for through a hydropower project development, but it may in turn impact on fish stocks and available agricultural land. Mitigation of impacts to fish stocks and agricultural land would then be required to ensure that the demonstrated need for food security is not compromised by meeting the demonstrated need for energy security.

Energy services are most easily linked to economic development, for example to power new industries in a region that wants to improve on basic economic indicators such as employment, per capita income, and gross domestic product. There are also social and environmental needs that are highly relevant to the consideration of demonstrated need. For example, the need to avoid carbon emissions is an environmental consideration while the need to provide electricity for health services is a social consideration. These needs should be articulated on a broader basis than just economic concerns.

The project under consideration may not be the only avenue used to address these needs, but it should clearly contribute towards addressing the identified needs. Any conflicts (e.g. with food security) should be identified at an early stage so that measures to address them can be built into the project proposal (e.g. through modifying project components or through project benefits). Ways in which a project can contribute to multiple demonstrated needs could include the provision of energy, fresh water, new industries, new employment opportunities, and new avenues for food production. Multi-purpose projects are often designed for multiple objectives, although every project does not necessarily have the right characteristics for this.

The assessment should go beyond alignment with demonstrated need to also show the strategic fit of the project with existing policies and plans. Examples of national and regional policies and plans include: development, energy, water, biodiversity, climate, conservation, transboundary agreements, and land use. Examples of social and environmental related needs, policies and plans include: poverty eradication, food security, maintenance of fisheries, protection of high value sites (e.g. national parks, World Heritage sites, Ramsar wetlands, sites of cultural significance, recognised significant landscapes). In some contexts, customary use may be a significant consideration. Projects may also need to show alignment with the policies of financing institutions.

The assessment should show the ability of the project to manage or compensate for shortfalls or inconsistencies with existing policies and plans. For example, if there is no government resettlement policy and the project is likely to involve resettlement, a prospective developer may need to have its own policy for resettlement or state a commitment to be consistent with an internationally recognised standard. Other important policy (and institutional) gaps may relate to, for example, dam safety, land acquisition, governance of aspects of reservoir management, project benefits, flood management, land titles, and emergency response.

Because the policy formulation process can take years, developers should also be attentive to emerging policies that may take effect in the future with implications for the project. The developer should monitor how the policy formulation process is developing and how underlying societal values are changing.

The government may provide summaries of relevant policies and plans for hydropower developments to prospective developers, or the proponent may have commissioned such an analysis itself. The fit of the project with policies and plans is likely to be unique and would have to be analysed on an individual basis, with consideration of policies and plans for any particular issues triggered by the development (e.g. if it involves resettlement or indigenous peoples, or has implications for existing conservation areas). The better a developer can demonstrate alignment, have its own policies

clearly established to address significant project issues, and ideally also demonstrate a track record of implementation, the more likely it is that the developer will be able to gain stakeholder support or at least avoid major stakeholder opposition to the project.

Stakeholder Engagement

Stakeholder Engagement criterion - Preparation Stage: The results of the assessment of strategic fit are publicly disclosed.

Public availability of a report that captures the outcomes of a project-specific assessment of strategic fit would meet this criterion. Strategic fit may be a section within the Environmental and Social Impact Assessment (ESIA). Evidence that such a report can be downloaded from a website or evidence of distribution to interested stakeholders on request would be examples that meet this criterion. It may be that the assessment was not done specifically for the project, but exists in other documents such as development plans and options assessment. Demonstrated public availability of these documents, as well as availability of relevant policies and plans, would satisfy this criterion.

Public disclosure is demonstrated if members of the public can access the relevant information if they would like to do so. This may be access to the relevant documents (either posted on a website, distributed, or made available on request to interested parties) or public notification about the results via a media release or website. If there was a one-off notification, information may later be hard to access. In this case, some effort should be made by the owner/operator to ensure awareness of and ease of accessibility of information by stakeholders over time. Information provision should be in locally accessible languages (see the Communications and Consultation guideline).

Outcomes

Outcomes criterion - Preparation Stage: The strategic fit of the project with needs for water and energy services, and relevant policies and plans can be demonstrated.

To meet good practice, the project should clearly be contributing to the identified development needs for water and energy services. This would be well-demonstrated through:

- clearly documented statements or reports on local, national and regional objectives for water and energy services;
- evidence that such objectives are broadly supported, e.g. the objectives were developed through an open and participative process with a high degree of consensus; and/or
- clearly articulated statements of project objectives that are aligned with or point directly to the local, national or regional objectives.

Strategic fit should be with respect to both energy and water resources planning as well as other criteria such as environment, climate change, etc. Relevant policies and plans will always include those that address core elements of the hydropower development, for example relating to energy, water, resource management, and development. Social and environmental policies and plans with direct relevance to the project may vary depending on the project context, for example a river basin policy, a resettlement policy, or a cultural heritage policy. A broader approach to analysis of strategic fit will help build stakeholder confidence in the project, for instance demonstrating alignment with policies relating to education, health, labour, climate, biodiversity, and customary use.

Care needs to be taken to ensure that there is not a disconnect between energy planning and water planning, which can occur when these two activities are done in isolation. Ideally, there would be an Integrated Water Resource Management (IWRM) or energy-water nexus approach that can be shown to underpin the project.

If there are no obvious contradictions between the development and the relevant policies or plans, this can be considered a strategic fit. In practice, there may need to be a process of dialogue and an adjustment of project features and activities to address any areas of concern or to improve alignment (see the Siting and Design guideline).

The ability of the proponent to address any gaps or shortfalls in the alignment of the project with relevant policies and plans would need to be demonstrated through evidence. Examples include the prior track record of the government, developer, or other similar developments in the region in managing similar gaps or shortfalls. A strong corporate policy framework and track record for a prospective developer are also sources of evidence.